

ISSUE DATE: August 27, 1999

DOCKET NO. G-007/M-99-735

ORDER APPROVING LOST MARGINS, BONUS, AND REVISED CONSERVATION COST
RECOVERY ADJUSTMENT FACTORS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey
Joel Jacobs
Marshall Johnson
LeRoy Koppendrayner
Gregory Scott

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request for Approval to
Recover 1998 Lost Margins, Bonus, and
Continuing Lost Margins and Approval of
Revised Conservation Cost Recovery
Adjustment Factors

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PROCEDURAL HISTORY

On May 26, 1999, Northern Minnesota Utilities (NMU or the Company) filed a request for approval of its 1998 Demand-Side Management (DSM) Financial Incentives and Conservation Improvement Program (CIP) Tracker Account Report. NMU also requested a variance to Minn. Rules, parts 7820.3500(K) and 7825.2700, subp. 1, to allow the Company to combine its Purchased Gas Adjustment (PGA) and Conservation Cost Recovery Adjustment (CCRA) on customer bills.

On June 25, 1999, the Department of Public Service (the Department) filed comments recommending acceptance of the Company's filing. The Department also recommended granting the Company's requested variance.

On August 19, 1999, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. NMU'S 1998 DSM REPORT

A. Elements of the Filing

NMU included the following elements in its 1998 DSM filing:

- lost margins of \$114,524 (including \$12,221 for current year lost margins)
- a bonus of \$3,055

- carrying charges of -\$56,749 for 1998 and -\$5,056.49 for 1997
- a December 31, 1998 CIP tracker account balance of -\$300,062, which excludes proposed 1998 financial incentives and carrying charges
- new CCRA factors to be implemented

B. The Department's Comments

The Department stated that the Company's calculations were correct and that the elements of the DSM recovery filing were consistent with previous Commission requirements. The Department recommended that the Commission allow NMU recovery of its lost margins, bonus, and carrying charges. The Department further recommended that the Commission approve the Company's proposed CCRA factors, effective as of the first billing period in October, 1999. The Department recommended that NMU file a revised Tariff Sheet No. 20 showing the approved CCRA factors. Finally, the Department agreed with the Company that its request for a variance meets the Commission's rule criteria for granting a variance.

The Department noted that it has questioned the efficacy of current DSM incentive mechanisms, and specifically filed comments in NMU's prospective 1999 DSM docket, No. G-007/M-99-549, recommending denial of the Company's lost margin recovery. The Department stated that its recommendation of DSM recovery in NMU's current docket is consistent with the Department's position regarding *prospective* elimination of lost margin recovery.

C. Commission Action

The Commission notes that NMU's 1998 rate of return, both actual and normalized, was below its authorized rate of return. NMU's projected 1999 normalized rate of return is also less than authorized. The Company has therefore shown no pattern of over-earning--a factor that has caused the Commission to question lost margin recovery for other utilities in recent filings.

The Commission agrees with the Department that NMU has, for the most part, correctly calculated its DSM lost margins, bonus, carrying charges, and CIP tracker account balance, and correctly formulated its CCRA factors.

However, the Commission notes that the Company did not include the carrying charge for 1998 in the December 31, 1998 CIP tracker balance, based upon the erroneous belief that the Commission must approve the carrying charge before it is included in the tracker and becomes subject to recovery in the CCRA. This error prompts the Commission to make two clarifications regarding the CCRA for this and future DSM filings:

- Utilities should include carrying charges for any given year in the year-end CIP tracker balance submitted for Commission approval. For example, the December 31, 1999 CIP tracker balance should include the 1999 carrying charges. Commission approval of the year-end tracker balance includes approval of the carrying charges.
- The amount projected to be recovered by the utility's revised CCRA is the most recently completed year-end CIP tracker balance, plus approved lost margins and incentives, plus the Department-approved CIP budget for the current year. This amount is offset by costs recovered through the Conservation Cost Recovery Charge (CCRC) and the CCRA. The estimated carrying charge for the year is then included.

The costs recovered through the CCRC and CCRA should be the actual recoveries for all months that the actual is available. For the rest of the months, the recovery is the forecasted sales for those months, multiplied by the CCRC or CCRA that is effective for that time period,¹ i.e. the rate that would be used on customer bills for that time period.

NMU's year-end CIP tracker balance and CCRA must be recalculated accordingly. The newly calculated tracker balances and resulting CCRA are shown at Attachment A.

With these revisions, the Company's proposed DSM recovery and CCRA calculations are acceptable.

II. NMU'S REQUEST FOR A VARIANCE

Minn. Rules, parts 7820.3500(K) and 7825.2700, subp. 1 require utilities to report the fuel adjustment clause (either Fuel Clause Adjustment [FCA] or Purchased Gas Adjustment [PGA]) as a separate line item on customers' bills. In previous DSM Orders, the Commission has granted utilities a variance from these rules to allow them to combine the CIP adjustment with the FCA or PGA on bills. NMU has asked for such a variance in this case.

The Commission will grant NMU's request for a variance to allow the Company to combine CIP adjustment information with fuel adjustment information on customers' bills. The request fulfills the three criteria for granting a variance under the Commission's rules of practice and procedure, Minn. Rules, part 7829.3200.

First, enforcement of the rule would impose an excessive burden upon the utility and its customers. NMU has for some years combined these factors in billing. Requiring a new entry on bills would be an unnecessary burden for the Company and could in this case add as much confusion as clarity for customers.

Second, granting the variance does not adversely affect the public interest. Combining these

¹ For the CCRC, the remaining months are those through the end of the calendar year. For the CCRA, the remaining months are those through the end of September because the new rate would be effective in October.

related factors will further the public interest by allowing the utility to keep its billing method consistent and clear.

Third, granting the variance does not conflict with any standards imposed by law. The requirement of a separate line item is a creature of Commission rule, not of statute. The Commission has the discretion to vary its rules if the variance meets the Commission's criteria.

ORDER

1. The Commission approves NMU's 1998 lost margins of \$12,221 and 1993 through 1997 continuing lost margins of \$102,303.
2. The Commission approves NMU's 1998 bonus of \$3,055.
3. The Commission approves NMU's corrected December 31, 1998 tracker balance of (\$356,810.54), including the 1997 carrying charge of (\$5,056.49) and 1998 carrying charge of (\$56,748.95).
4. The Commission approves, effective October 1, 1999, NMU's corrected CCRA factors as shown on Attachment A of this Order. Within ten days of the date of this Order, the Company shall file a revised Tariff Sheet No. 20 showing the corrected approved CCRA factors.
5. The Commission grants NMU a one year variance to Minn. Rules, part 7820.3500(K) and 7825.2700, subp. 1 to allow NMU to combine its Purchased Gas Adjustment and its CCRA on customer bills in a line item entitled "Resource Adjustment Charge."
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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